

RBI/2004-05/495

RPCD.CO.RRB.No.BC.105/03.05.34/2004-05

June 17, 2005

All Regional Rural Banks

Dear Sir,

Strengthening of Prudential Norms - State Government guaranteed exposures

Please refer to our circular RPCD.RRB.No.BC.54/03.05.34/99-2000 dated January 14, 2000, which contained, among others, prudential norms regarding State Government guaranteed advances. At present, asset classification and provisioning requirements in respect of State Government guaranteed exposures are linked to invocation of the State Government guarantee.

2. The prudential norms pertaining to State Government guaranteed exposures, (i.e. advances and investments) have been reviewed and it has been decided to **delink** the requirement of invocation of State Government guarantee for asset classification and provisioning and subject them to the same norms as applicable to exposures not guaranteed by the State Governments.

3. However, with a view to enabling banks to have a smooth transition in the matter, the revised prudential norms in respect of State Government guaranteed exposures (i.e. both advances and investments) would be implemented in a phased manner as under:

- (a) With effect from the year ending **March 31, 2006**, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or principal or any other amount due to the bank remains overdue for more than 180 days.

- (b) With effect from the year ending **March 31, 2007**, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or instalment of principal or any other amount due to the bank remains overdue for more than 90 days.

4. Please acknowledge receipt to our concerned Regional Office.

Yours faithfully,

(G. Srinivasan)
Chief General Manager